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Latin America Review

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8 November 1985

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Latin America
Review

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Articles have been coordinated as appropriate with other offices within CIA.
Comments and queries regarding this publication may be directed to the Chief,
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Articles

Nicaragua: Atlantic Coast Dilemma

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The Sandinistas, recognizing the military and economic importance of Zelaya Department, have tried since taking power to coerce or co-opt the fiercely independent population of the Atlantic coast region.

Neither ploy has been fully successful, due in large part to the traditional distrust with which the Indians and English-speaking Protestant Blacks of the east view the Spanish-speaking Catholics of the west, and to the abusiveness often used to implement Sandinista policy. We believe the regime's current offers of broad autonomy are intended to lure the Atlantic coast residents into an accommodation with Managua, and thereby deny the region to the insurgents. Meanwhile, divisions and power struggles within the indigenous insurgent groups are complicating their struggle against the regime, as well as Sandinista attempts to woo them away from the insurgency. Managua is likely to face turmoil in the region for years to come.

Sandinista efforts to dominate eastern Nicaragua—in marked contrast to the official neglect of previous administrations—appear motivated by strategic, economic, and ideological considerations. Many of the arms shipments from the Soviet Bloc, for example, arrive in Atlantic coast ports and are transported to Managua via a long river and overland route. Although Zelaya Department is less developed than western Nicaragua, the Sandinistas from the beginning wanted to exploit mining, timber, and fishing resources, according to press and US Embassy reporting. In addition, we believe their commitment to building a Marxist-Leninist state drives them to seek integration of and effective control over all regions of the country.

Sandinista Actions

With the slogan "The Atlantic coast, an Awakening Giant," the new regime promised to bring economic progress to Zelaya and created a development agency for the region in 1980. The Sandinistas organized health clinics and literacy classes with the help of a large Cuban contingent. The government established the Indian organization, MISURASATA, to gain control of the indigenous population and gave its leader, Steadman Fagoth, a seat on the Council of State. Managua acknowledged the cultural separateness of the region with native language literacy efforts and a short-lived Miskito language edition of the official newspaper.

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any resistance to Sandinista control brought a sharp government response. When anti-Cuban riots erupted in Bluefields in September 1980, for example, Managua dispatched several hundred soldiers to restore order and arrested some 45 local residents, according to press accounts. In early 1981, as MISURASATA became increasingly independent, Fagoth and other prominent Indians were arrested on charges of having conspired with the regime of former President Somoza.

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The regime also began harsh repression of Indian communities along the Honduran border in 1981 because of growing insurgent activities in the area. Numerous reports—many of them compiled by international human rights organizations—from defectors, religious workers, and Indians in exile attest to arbitrary searches, mass arrests, physical

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abuse, killings, and destruction of property and livestock. By early 1982, the Sandinistas had destroyed many villages and ultimately forced some 30,000 Indians from their homeland along the Rio Coco to camps in the interior of the country, according to press and US Embassy reporting. []

The Indian Response

During 1981 and 1982, according to press reports, thousands of Indians sought refuge in Honduras and hundreds more in Costa Rica to escape Sandinista repression. Some of these refugees, along with compatriots in Nicaragua, joined anti-Sandinista insurgent groups, [] In 1981, part of MISURASATA (later renamed MISURA) under Steadman Fagoth's leadership, allied with the Honduran-based Nicaraguan Democratic Force (FDN), the largest of the rebel groups, and began attacking Sandinista targets in the northeast. A remnant of MISURASATA, organized by Indian leader Brooklyn Rivera, collaborated with Eden Pastora's anti-Sandinista insurgent forces in the southeast. Smaller Indian groups and bands of Blacks or Creoles joined the fighting, operating independently, and ambushing government patrols and vehicles, [] Through 1983 and into 1984, several insurgency groups—Indian and non-Indian—increased their military activities in Zelaya Department. []

A New Approach

Realizing that repressive measures had failed to intimidate the Atlantic coast residents and had resulted in unfavorable international publicity as well, the regime shifted to a policy of accommodation. Last spring the government announced plans for a major resettlement of Indians back to their homeland along the Rio Coco and extended amnesty to Indian exiles and political prisoners. The Sandinistas loosened travel restrictions in the region and appointed commissions to study the issue of Indian autonomy and develop proposals to be presented to the National Assembly. Government officials have been involved since March in an on-again, off-again dialogue with MISURASATA leader Rivera that produced the amnesty extension. Officials also obtained a limited cease-fire agreement from another Indian leader, Edward Panting, before his mysterious death last summer. []

Nicaragua's Indigenous Groups

- **MISURASATA** (*Miskito, Sumo, Rama Sandinista Unity*)—formed to represent Indian interests in coordination with the Sandinista government, but in 1981 went into armed opposition in northeastern Nicaragua under Steadman Fagoth's leadership, and later assumed the name **MISURA**. A break-away faction under the leadership of Brooklyn Rivera kept the name **MISURASATA** and has operated militarily in the south. 25X1
- **MISURA** (*Miskito, Sumo, Rama Revolutionary Force*)—the larger faction of **MISURASATA** under the leadership of Steadman Fagoth changed its name to remove reference to the Sandinistas. It has been allied with the FDN and operates in the northeast. 25X1
- **MISATAN** (*Organization of Miskitos in Nicaragua*)—organized in 1984 by the regime to replace **MISURASATA** with a friendly indigenous organization, with Sandinista supporter Hazel Lau in a leadership role. 25X1
- **SICC** (*Southern Indigenous Creole Communities*)—a Creole organization affiliated with **MISURA**. 25X1
- **SUCAWALA** (*National Association of Sumo Communities*)—a recently organized group to represent Sumo interests, participating in autonomy discussions with the government.
- **Miskito General Assembly and Council of Elders**—Miskito tribal organizations and decision-making bodies.
- **KISAN** (*Unity of All Nicaraguan Coastal Peoples*)—the latest attempt to unify indigenous people, this organization, headed by Wycliffe Diego and military Commander, Alan Artol, replaces **MISURA** and draws participants from **MISURASATA**, **SICC**, and independent black Creoles.

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The regime has used such overtures to Indian groups and leaders with some success as a means of weakening support for the insurgents and splitting Indian loyalties. The US Embassy viewed Managua's talks with Rivera last spring as posturing in anticipation of the Congressional vote on support to anti-Sandinista insurgents. Despite the extension of amnesty for Indians and Creoles, the April round of talks produced no resolution of critical issues such as land use, autonomy, or a formal cease-fire. While some Indians have accepted the government's amnesty and resettlement offers, others remain skeptical of these attempts as "political tools" to undercut Indian unity, according to press statements.

Interior Minister Borge, placed in charge of Atlantic coast policy last January, publicly has stressed cultural autonomy rather than the full political autonomy sought by the Indian groups. [redacted] conflict within the native community between those who want to pursue further autonomy talks and those who reject regime overtures. In addition to negotiating individually with Indian leaders, the government also uses its own organization, MISATAN, under the direction of proregime Indian leader Hazel Lau, to demonstrate government cooperation with the Indians. [redacted]

Indian Disunity

Despite recent progress toward a united indigenous organization, power struggles within the various indigenous organizations complicate Indian attempts to speak with one voice and compromise their ability to negotiate effectively with the government. During the past summer, several Indian leaders, including Wycliffe Diego, Steadman Fagoth, and Brooklyn Rivera, formed a commission to work toward unification. Subsequently, a unified Indian organization—KISAN—was established without Fagoth and Rivera. The two were denounced by the Indian hierarchy and ostensibly removed from their leadership positions—Fagoth for irresponsible leadership and Rivera for negotiating with the regime, [redacted] Rivera, however, retains followers within KISAN and may be able to keep the new leaders from consolidating their power. Following his ouster, Rivera dismissed KISAN as a

divisionist organization created to allow the FDN to monopolize US funds. [redacted]

Despite press reports of renewed military activity by KISAN forces, a new government tactic is contributing further to Indian disunity. KISAN leaders recently expressed concern that Managua is naming former Indian insurgents to positions of local authority with responsibility for protecting roads and facilities, according to US Embassy reporting. The leaders say this practice is having a divisive effect on the Indian ranks. [redacted]

In addition to the problem of regime-co-opted Indians, KISAN leaders are also angered at their exclusion from the decisionmaking council of the main insurgent forces. [redacted] however, indicate renewed Indian military action against Sandinista targets and reassertion of KISAN authority over accommodationists in northern Zelaya. [redacted]

Outlook

The Sandinistas probably will press forward with carefully selected autonomy gestures and Indian resettlement programs to undercut the authority of indigenous leaders and weaken support for the insurgency. Any concessions are apt to be tactical, and we would expect Managua to renege on some if insurgent activities on the east coast die down. If adequate supplies are forthcoming from the FDN, KISAN probably will increase its military actions, and the regime will be tempted once again to risk overt repression. [redacted]

Continued divisions within the indigenous groups may aid the government's efforts to co-opt some Indian groups and dilute the effectiveness of KISAN's efforts to unify them. Resettlement and other regime gestures, as well as internecine strife, will complicate the indigenous opposition's efforts to gain control over the east coast. Nonetheless, most residents of the region will not easily be co-opted or subdued, and the Sandinistas almost certainly will face resistance for years to come. [redacted]

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**Costa Rica: Leading
Presidential Candidates**

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Although some 15 parties will participate in the elections in February, the next president will come from either the center-right Social Christian Unity Party (PUSC) or President Monge's center-left National Liberation Party (PLN), probably after a close contest. The PLN's Oscar Arias has recently regained the lead—although narrowly—over the PUSC's Rafael Calderon in public opinion polls. Arias's strong background and his appeal to public sentiment in favor of avoiding entanglement in the Central American turmoil have begun to offset recent financial scandals involving PLN officials and charges that the Monge administration is "soft" on Nicaragua. The charismatic Calderon meanwhile has a strong following among young voters, and he is likely to benefit from the Costa Rican tradition of denying any party consecutive terms. Both candidates are favorably inclined toward the United States.

Arias and the PLN

The US Embassy reports that the 44-year-old Arias has made economic stability the main theme of his campaign. He proposes to create 30,000 new jobs a year, increase nontraditional exports, and improve the efficiency of the public sector,

Arias believes an increase in employment and nontraditional exports can be achieved by taking greater advantage of the Caribbean Basin Initiative to develop petroleum and fisheries resources. Arias also intends to give agrarian reform high priority and views the redistribution of land as a key economic issue. While land reform has become a major issue in neighboring countries such as El Salvador and Nicaragua, it has not been traditionally considered an important issue in Costa Rican politics. Nevertheless, press reports indicate an increase in violent land invasions and hunger strikes in the past year among Costa Rica's rural poor, and Arias is likely to appeal to campesinos in the north.

The latest public opinion polls—not scientifically sound but the best estimates available—show Arias has overtaken his opponent. Trailing Calderon by 32

Oscar Arias

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to 36 percent in August, the PLN candidate was leading by 39 to 34 in October. This turnaround may be due in part to Arias's appeal to broad sentiment in favor of a peaceful resolution of bilateral disputes with the Sandinistas. His image as a peace candidate may be further enhanced if Monge's recent efforts to negotiate a rapprochement with Nicaragua are successful.

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Arias has a number of liabilities, however. Press and US Embassy reporting, for example, indicate a bitter primary campaign left the PLN badly divided and financially strapped. As a result, the party has been hard pressed to compete with the PUSC in key campaign aspects such as registration and advertising.

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Controversies involving members of the PLN also have tarred Arias. The US Embassy reports that Vice President Arauz has been implicated in the misuse of \$2 million in emergency funds appropriated for natural disasters, and a number of lesser party officials also have been accused of wrongdoing.

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Calderon and the PUSC

As the standard bearer of the PUSC, a four-party coalition established in 1983, Calderon has focused on domestic social welfare issues and economic stability. He advocates the creation of a national fund for housing, increased employment opportunities, and the strengthening of the social security system, although he has avoided specifics. Calderon also intends to limit the size of the bureaucracy and to control government expenditures by constitutional reform that would tie public-sector growth to growth to the gross national product. []



Rafael Calderon []

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In foreign policy matters, Calderon has taken a pro-US stance and emphasized the Nicaraguan threat to Costa Rica. [] he rejects Monge's policy of neutrality toward the Sandinista regime, but also shies away from the idea of a confrontation with Managua. The US Embassy reports that Calderon counts on US protection, arguing that Washington should break relations with Managua and give clear and open aid to anti-Sandinista insurgents. []

surrounded by the same team that advised the Carazo administration, a presidency characterized by government monetary and fiscal irresolution in the face of deepening economic crisis. []

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Implications for the United States

Both candidates are basically well disposed toward the United States and, despite Arias's emphasis on peace, share a concern for Costa Rica's weak defensive capabilities in the face of the Sandinista's military buildup and belligerence. According to US defense attache reporting, both candidates have agreed to maintain a battalion of US-trained civil guardsmen and to continue the Monge administration's efforts to professionalize the security forces. The PLN proposes to reorganize the forces and expand personnel by at least 1,500. Similarly, PUSC says it will add 2,000 men to the Civil Guard. Calderon probably would be somewhat more inclined than Arias to continue US training for the Civil Guard. []

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Handsome and only 35 years old, Calderon is widely believed to appeal to the strategically important young voters, according to press and US Embassy reporting. He will benefit from identification with his father—a former president and popular social reformer—and from the Costa Rican tradition of replacing the incumbent party every four years. In addition, his party is conducting a well-organized and well-financed campaign, according to the US Embassy. []

On the negative side, critics have tried to discredit his anti-Sandinista stance by pointing to his tenure as Foreign Minister in the administration of former President Carazo, who supported the Sandinistas' bid for power. Another alleged Calderon weakness cited by the opposition is that the PUSC candidate is

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Haiti-Dominican Republic: Drugs, Corruption, and Official Response [REDACTED]

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Haiti and the Dominican Republic increasingly are serving as transshipment points for South American narcotics destined for the US market. US officials indicate that the Dominican Republic's limited interdiction efforts generally have been more successful than those of Haiti, partly because drug-related corruption is more entrenched and growing faster in Haiti. Based on the severe economic difficulties we foresee in both countries and greater efforts by major Caribbean and South American traffickers to find new bases for their operations, drug trafficking in Haiti and the Dominican Republic probably will increase over the near term. Although domestic drug use is mainly limited to the affluent in both countries, we believe increased trafficking will eventually result in nationwide drug abuse similar to the recent pattern in Jamaica and The Bahamas.



Overview

Haiti and the Dominican Republic, which share the island of Hispaniola, are ideally located for drug trafficking. Situated midway between the major drug-producing countries of South America and the US market, and less than 100 miles from Jamaica at Haiti's southwestern point, both countries share other common features: long coastlines with many secluded harbors, a number of international airports and remote airstrips, and low standards of living that make their officials susceptible to corruption. [REDACTED]

Although Haiti's and the Dominican Republic's growing narcotics problems are similar, we have little evidence of any trafficking between the two countries. Illicit narcotics-related activities in both countries are largely restricted to transshipment of marijuana from Jamaica and cocaine from South America to the United States, according to Embassy reports. Well-organized smuggling rings controlled by Colombians, Jamaicans, and US citizens frequently operate out of Haiti and the Dominican Republic, according to US officials. Local consumption, on the other hand, seems to depend on domestic suppliers. Police in both

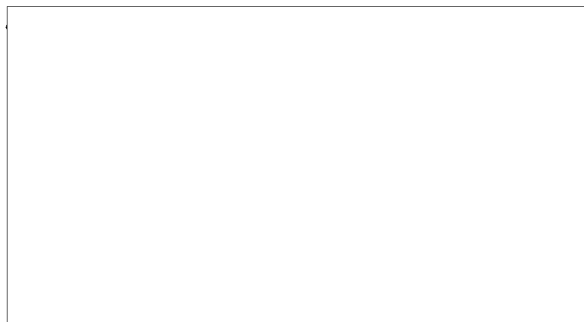
countries reportedly have discovered small plots of marijuana, which grows wild throughout the island. Embassy reports indicate that drug abuse is more widespread in the Dominican Republic than in Haiti. Marijuana is popular—cocaine to a lesser extent—among affluent Dominican youth. US officials also report a small part of the wealthy Haitian elite and the foreign community constitute a local market for marijuana and, secondarily, cocaine. [REDACTED]

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Trafficking

Haiti. Police and the Embassy indicate that seaborne traffickers frequent the island's southern coast, the northwestern peninsula, and Port-au-Prince. Airborne trafficking is concentrated in Port-au-Prince through its international airport, but US officials report that trafficking through rural airstrips is increasing:

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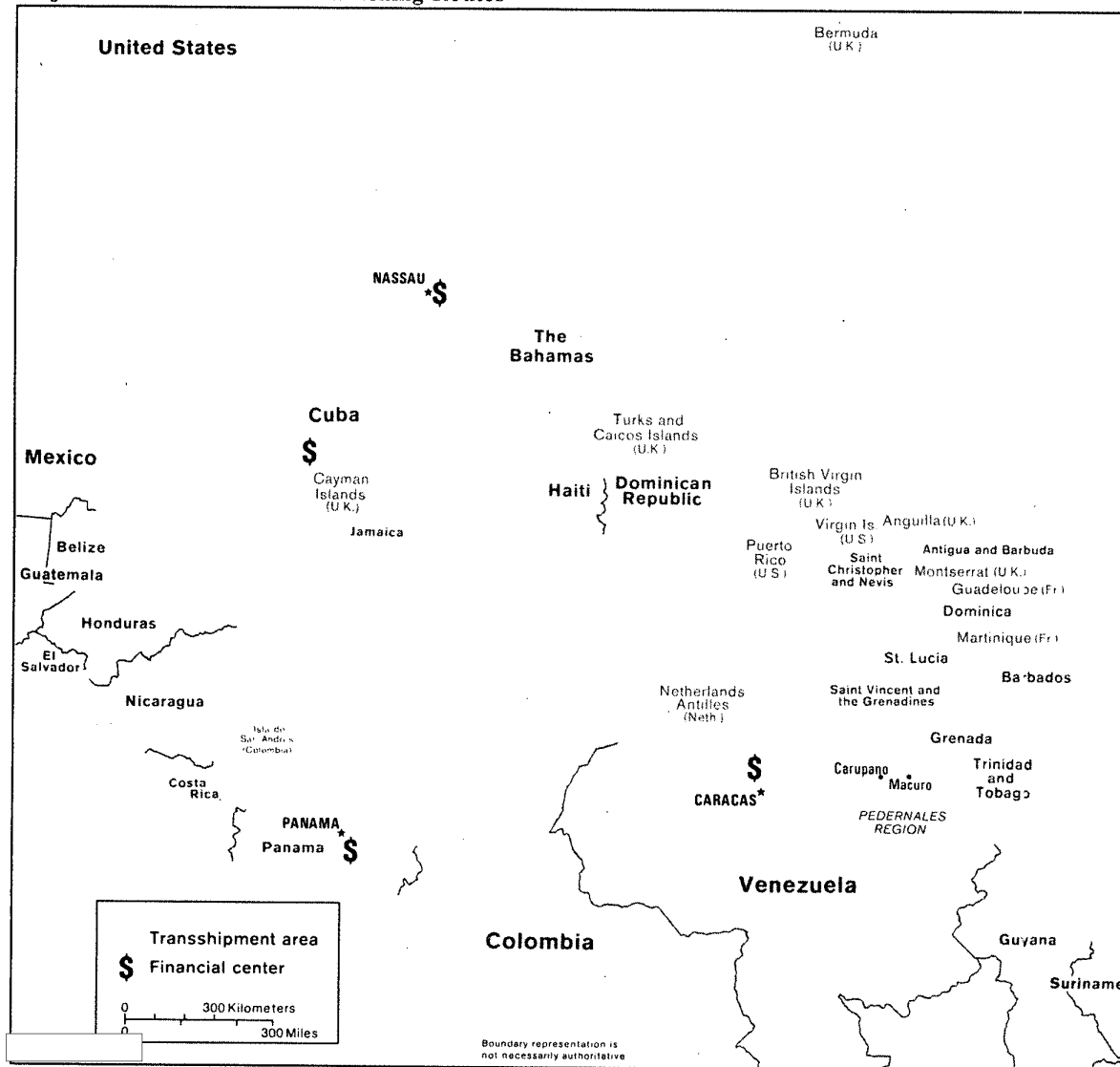
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- In March, Haitian police reported to the Embassy that they had destroyed 4,150 pounds of Colombian marijuana seized in southern Haiti.
- In April, [REDACTED] a Cartagena-based, Colombian trafficking ring used Port-au-Prince as a staging point for smuggling cocaine to the United States aboard luxury yachts.
- Also in April, police seized 600 pounds of cocaine on Gonave Island.

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Secret**Major Narcotics Maritime Trafficking Routes**

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- In June, police arrested four US citizens and seven Colombians in Cap-Haitien for attempting to transfer 1,000 pounds of cocaine from a light plane to a nearby yacht, according to the Embassy.
- In July, authorities confiscated 300 pounds of marijuana after a small aircraft was forced to land because of mechanical problems.

- In September, [redacted] a Colombian trafficking ring flew unspecified drugs from Colombia to Port-au-Prince via Curacao for probable transshipment to the United States.

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Dominican Republic. There also has been a similar increase over the past year in the use of the Dominican Republic for drug transshipments:

- The US Embassy reports that the Drug Enforcement Administration (DEA) began receiving information early this year that Colombian traffickers were establishing bases of operation in the Dominican Republic to facilitate air-smuggling operations.
- In April, [] informed the US Coast Guard that Dominican-controlled traffickers promise individuals seeking to emigrate to the United States false documentation in return for smuggling unspecified drugs into the United States. [] the migrants enter New York's Kennedy Airport through San Juan, Puerto Rico, where they receive the false papers.
- In August, [] a trafficking ring operating between the Dominican Republic and Haiti—our first evidence of such a link—involves some active duty and retired Dominican military personnel.
- In September, according to press reports, President Jorge Blanco announced that Dominican authorities had seized 1,400 pounds of cocaine and uncovered an international drug network attempting to establish a local operating base to transport drugs to the United States.

• []

Drug-Related Corruption

Haiti. Despite efforts by high-level Haitian officials to cooperate in interdiction efforts, the Embassy reports that drug-related corruption is growing. For example, the Embassy says it recently received credible reports that some of the cocaine seized by police is being sold throughout the country by Haitian

officials. Given Haiti's tradition of corruption and severe poverty, the Embassy believes traffickers have intensified efforts to corrupt officials systematically to facilitate their operations. []

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According to US officials, Ernest Bennett—the influential father-in-law of President Duvalier—is periodically implicated in drug trafficking. We have no hard evidence that he is linked to narcotics, but Embassy sources indicate that Bennett organizes cocaine shipments to the United States on private aircraft. []

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According to a US Embassy report from Switzerland in April, Haiti's former ambassador to the United Nations in Geneva implicated the Bennett and Duvalier families in trafficking. The ambassador also privately described his successor, Jean-Paul Carteron, as a financial adviser to Haiti's ruling families on trafficking matters, according to a source of the Embassy in Geneva. The Embassy in Port-au-Prince reports that the Haitian Government has authorized Carteron to sell Haitian passports in Geneva for \$40,000 each, a scheme that terrorists and narcotics traffickers may use to facilitate international travel.

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Other high-level Haitian officials have been tarnished by drug activities. Haiti's chief of police informed US officials in July of the abrupt replacement of narcotics bureau head Yves Brunet. The Embassy reports that unconfirmed information points to Brunet as a link between international traffickers and local officials and businessmen involved in the drug trade. Moreover, US officials suspect that Brunet's predecessor arrested only traffickers who failed to pay him tribute. []

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Also in October, []

[] a Colombian trafficker had bribed Haitian officials to ensure safe transit through Haiti. [] two Colombians

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arrested in June on cocaine charges secured their release after allegedly paying \$300,000 to a high-ranking police official. []

Dominican Republic. Although corruption among officials has a long history in the Dominican Republic, evidence has emerged only recently of military involvement in trafficking:

- In August, US officials reported Dominican authorities arrested five Air Force personnel for providing traffickers with safehavens from which to stage smuggling activities.
- In October, the government announced the arrest of a retired Air Force general as the alleged mastermind of a cocaine trafficking ring and indicated that other military and police personnel are under investigation for involvement in the ring. []

Government Antidrug Efforts

Haiti. Division of responsibilities for narcotics control undercuts Haiti's interdiction efforts because Duvalier—fearful of coup plotting—discourages government entities from sharing information, according to the Embassy. The police narcotics bureau has overall responsibility for coordinating these activities, but the lack of regional expertise limits its effectiveness in outlying areas. Nevertheless, the Embassy reports that US officials are assisting Haitian police and military personnel to develop the basic skills needed for national narcotics control. []

Military branches conduct limited and uncoordinated interdiction operations. According to the Embassy, the Navy patrols only small areas along the northwestern coast. The entire southern coast, with its many ports and harbors, is left virtually open to traffickers. The Navy lacks the ships, pier facilities, and operating skills necessary for overall coverage, according to US officials. The Air Corps also has antinarcotics responsibilities but, according to Embassy reports, conceals information from other government components. []

Other government agencies support narcotics control. Although some customs personnel have received US training, customs and immigration officers generally lack sufficient skills and motivation, according to US officials. []

Dominican Republic. Unlike Haiti, the Dominican Republic's antinarcotics effort is integrated and relatively efficient. According to US officials, police and military units responsible for narcotics control work well together and, within their capabilities, cooperate fully with US agencies. Major responsibility for enforcement is vested in the national police through a 135-man narcotics unit. US officials report that the Dominican chief of police considers narcotics enforcement a high priority and that the head of the police narcotics unit—a well-respected, longtime ally of the DEA—has a loyal and professional officer corps. []

The government recently has increased cooperation with Colombia and the United States on antidrug efforts. []

[] Dominican and Colombian officials met in April to coordinate antitrafficking activity. []

[] the Dominican Government agreed in August to establish a national narcotics council based on the Colombian model. []

[] the council will formulate policies and programs for public and private entities against the production, trafficking, and use of illegal drugs. In addition, Dominican police and armed forces, with US Embassy assistance, are establishing a joint information collection unit to monitor all individuals and vessels entering the country. According to Embassy reporting, the unit is scheduled to be fully operational this month. []

Outlook

We believe continued crackdowns against drug activities in Jamaica and South America increase the

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likelihood that traffickers will compensate by expanding their operations in Haiti, the Dominican Republic, and elsewhere in the Caribbean area. Based on recent trends in Jamaica, Trinidad and Tobago, and The Bahamas, we believe increased trafficking could prompt a steady rise in local consumption. Only vigorous and sustained interdiction by local authorities would be likely to stem the rise in drug trafficking we foresee in Haiti and the Dominican Republic over the next few years.

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We are encouraged by recent Dominican efforts, but are pessimistic about Haiti's ability and willingness to carry out an effective interdiction campaign. Although leading Dominican political and military officials under the present administration view trafficking as a security threat and are strongly motivated to maintain interdiction efforts, the situation could change. The country's national election next May adds an element of uncertainty because a new administration might not support antidrug efforts as strongly as the present government. Although Embassy officials in Port-au-Prince are impressed with the new narcotics chief there, we believe Haiti's limited interdiction capabilities will diminish even further, particularly as the country's weakening economy increases the susceptibility of officials to corruption.

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**Mexico:
Military Concerns Over
Foreign Policy** [redacted]

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Elements of the Mexican officer corps are privately grumbling over what they regard as the flawed policies of the Secretariat for Foreign Affairs, [redacted]. Their concerns are, in part, ideological: the politically conservative military faults the Secretariat for being too leftist and reportedly believes some of its policies are contrary to Mexico's best interests. Their dissatisfaction also reflects what the US defense attache perceives as a growing interest in foreign affairs on the part of the military, a trend largely caused by emerging regional security problems and the ongoing push to modernize the armed forces. While the military is unlikely to gain significant influence on foreign policy in the near to medium term, it probably will slowly acquire a greater advisory role on some national security issues, such as those dealing with Central America and the United States. [redacted]

Background

Mexican military personnel rarely disagree publicly with the government's foreign policy, but, [redacted] many officers recently have become more inclined to express such opposition in private. While their views may not be representative of the entire officer corps, these faint stirrings of dissent are a departure for the "apolitical" modern military. [redacted]

In our judgment, these expressions are a natural consequence of the growing institutional maturation of the armed forces. According to defense attache reporting, efforts begun during the oil boom years of the 1970s to modernize the military have instilled in officers a growing sense of professionalism and a broader perception of their own role within the system. Training initiatives also have contributed to the officer corps' knowledge and sophistication regarding foreign affairs. Training abroad increased sharply during the 1970s, and the four-year-old National Defense College provides courses in international affairs and area studies. The expansion of the military attache program also has given officers added exposure to the international scene. [redacted]

We further believe the more independent attitude of the armed forces is a reaction to what many officers regard as the errant policies of Foreign Secretary Sepulveda and the Secretariat for Foreign Affairs. Opposition from conservative officers to the prevailing leftism of Sepulveda and the Secretariat—on both pragmatic and ideological grounds—apparently has awakened a desire to influence elements of foreign policy. So far, however, [redacted] officers tend to concern themselves primarily with those foreign policy issues in which they detect security implications. These issues include Central America and the Contadora process, as well as subjects of overriding national import, such as relations with the United States. [redacted]

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Central America and Contador

[redacted]

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While the military is mindful of the security implications of the Guatemalan and Salvadoran insurgencies, its concern over developments in Nicaragua is aggravated by Mexico's continuing policy of support for the Sandinistas. [redacted]

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[redacted] A second group of officers recently echoed that sentiment to the [redacted]

[redacted] While prevented from publicly voicing this view, officers reportedly believe that Nicaragua threatens the hemisphere's security, and they worry about the ramifications of any future Soviet bases there. They regard the Sandinistas as avowed Marxists who could easily opt to follow the Cuban model. [redacted] some high-ranking Mexican military men are even convinced that Managua has ultimate designs on Mexico's oilfields. [redacted]

The military's antipathy toward Nicaragua was subtly revealed at a 1984 Mexican Independence Day luncheon hosted by Arevalo, in which he had the senior US representative seated at his elbow. Nicaraguan Defense Minister Humberto Ortega, by contrast, was relegated to an adjacent table with Soviet and Cuban delegates. [redacted]

Relations With the United States

Contrary toward the Secretariat's often confrontational approach to Washington, many military officers are favorably disposed toward the United States. [redacted]

[redacted] a number of generals believe that the United States is the only country able or willing to help Mexico cope with its massive foreign debt. In their view, the Secretariat's confrontational attitude toward Washington, along with its current tilt toward Nicaragua and, to a lesser extent, Cuba, only alienates a potential benefactor. [redacted]

Impact

The degree of influence that the military exerts on foreign policy is difficult to gauge, although we believe it to be minimal but growing. There are indications, for example, that President de la Madrid

has already allowed the military to become somewhat more involved in foreign policy matters. For instance, recognizing that poor relations with the United States would increase Mexico's economic problems, de la Madrid reportedly has directed Arevalo to work toward establishing closer ties to the US armed forces as part of a broader effort to ease tensions with Washington. [redacted]

[redacted] have become increasingly cordial during the past year, [redacted] It is not surprising that Arevalo is playing a key role in mending fences with Washington. [redacted]

In addition, [redacted]

[redacted] over the last two years.

These reports—sometimes criticized for not reflecting official policy—also are circulated to the President, the Secretariat for Foreign Affairs, the Interior Secretariat, and sometimes the ruling party leadership. Arevalo apparently makes use of them when privately expressing his dissatisfaction with Secretariat for Foreign Affairs policy. It is unclear, however, how seriously the President and other recipients take them. [redacted]

Outlook

With military officers growing more concerned—albeit privately—about foreign policy issues, we believe that elements of the officer corps will gradually seek new ways to gain a greater voice in the policymaking process. Continued modernization, particularly through more education, will help enhance their qualifications for an advisory role. Moreover, we believe that de la Madrid, ever mindful of the possibility of economic-related unrest, has sought to reassure the military of its importance in the system through public demonstrations of support and by exempting the military from the latest round of

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austerity budget cuts. Faced with a military interested in becoming more involved in policymaking, we believe the President will endeavor to bring it further into the process, although in a modest and controllable way. He already has done this with the recent creation of a National Defense Commission within the relatively powerless Chamber of Deputies. De la Madrid's use of the armed forces in improving relations with the United States illustrates his willingness to involve the military modestly in foreign policy, despite the objections of civilians who would oppose an elevation of the military's role.

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Grenada: Struggling Toward a New Economic Course

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Two years after the US-led military intervention, Grenada is grappling with a 35- to 40-percent unemployment rate as the Blaize administration attempts to reorient the economy toward the private sector. The government's effort to stimulate development of agriculture, tourism, and light manufacturing is hampered by the island's weak physical infrastructure, which has discouraged any significant inflow of foreign investment. Sizable aid in the pipeline from Western donors, particularly the United States, probably will enable Grenada to achieve moderate economic growth over the near term. Still, the disappointing pace of new foreign investment and lengthy process of infrastructural development point to slow progress in reducing unemployment. If hopes for prosperity fade, the weakened political opposition on the left and right could capitalize on the public's disillusionment.

The Bishop Years

After seizing control of the government in 1979, Maurice Bishop and his People's Revolutionary Government (PRG) initially implemented sound economic policies, but soon began to increase the government's role in the economy. Bishop's misguided economic and political policies ultimately weakened the economy. Despite external grants of \$65 million between 1979 and 1983—more than half of which came from Cuba and much of the remainder from various Arab and Eastern Bloc countries—real GDP grew at an average annual rate of only 1.8 percent, compared to a yearly average of 7 percent during 1975-78. The government's huge expenditures on the showcase Point Salines airport came at the expense of more basic infrastructural needs such as reliable electricity and upgraded farm roads.

The adverse effects on society were pervasive. Although unemployment was held down by recruiting youths into the army and featherbedding in the public sector, the unemployment rate was estimated as high as 27 percent during the early 1980s. Perhaps, the most significant socioeconomic indicator was the rise

in migration. According to US press reports, the population—officially listed at 111,000 to 118,000—may well have fallen to 85,000 as many Grenadians, including those with the managerial and other skills needed to help bolster the economy, fled the adverse economic and political environment.

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Restructuring Begins

Following the US-led intervention in October 1983, the interim government began to reorient Grenada's economy toward the private sector, rationalize the public sector, and remove state-imposed impediments to growth. By late 1984, the government had:

- Relinquished control of the nutmeg, banana, and cocoa associations to producers and returned a number of agricultural estates to private hands.
- Laid off hundreds of state employees padding the payroll during the PRG's tenure.
- Lowered the stamp duty on imports by 25 percent in an attempt to ease the cost of living, stimulate consumer demand, and encourage private investment.
- Raised ceilings on interest rates to encourage private saving.
- Relaxed foreign exchange controls in an effort to improve business confidence and enhance the new, free market economy.

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Moreover, recognizing the importance of private—particularly foreign—investment for economic development, the interim government revised the country's investment code to open virtually all sectors to private investors. New incentives were included, making Grenada's investment lures comparable with those of other Caribbean countries. In addition, the government pledged to continue infrastructural development to facilitate new investment.

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International assistance was critical to the interim government's economic program. With the end of Soviet Bloc funding—as well as the termination of a

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three-year, \$14 million IMF program arranged just before Bishop's downfall—the government looked to Western countries for financial support. [redacted] a record \$25 million in external grants was disbursed to the Grenadian Government during 1984. Generous aid from the United States—by far the largest donor—and Canada enabled airport construction to be largely completed by late 1984. [redacted]

Challenges Facing the Blaize Government

Despite the promising foundation laid by the interim government and the generous inflow of foreign aid, formidable economic problems have persisted since Prime Minister Herbert Blaize was elected last December. Foremost is the 35- to 40-percent unemployment rate, which particularly affects the country's youth. The government is especially worried about joblessness among students who have returned from Cuba and former soldiers of the disbanded People's Revolutionary Army. [redacted]

To ease unemployment, the Blaize administration is targeting agriculture, tourism, and light manufacturing for rapid development:

- Substantial funds have been directed toward upgrading agricultural productivity and expanding support services. Cocoa and banana cooperatives have received funds to cover financial shortfalls due to slumping world prices. The government also is selling land on concessional terms to small-scale farmers.
- Tax holidays of up to 10 years are being offered to investors in tourism. The government is scheduled in December to start its own airline—Grenada Airways—to facilitate the flow of tourists to the island. The airline plans eventually to build a 300- to 350-room hotel near the Point Salines airport.
- New investment in light manufacturing is eligible for lengthy tax holidays. The corporate income tax has been reduced slightly this year, and an Industrial Development Corporation has been established to promote and coordinate new investment projects. [redacted]

Grenada: Western Economic Aid Commitments, 1984-85 ^a *Million US \$*

	1984	1985
Total	46.5	55.8
Loans	4.8	7.2
Caribbean Development Bank	2.7	2.9
United Kingdom	1.5	2.6
Other	0.6	1.7
Grants	41.7	48.5
Canada	7.5	5.0
Of which:		
Airport construction	(6.1)	(3.3)
European Development Fund	0.7	1.4
United Kingdom	1.4	0.4
United States	30.7	27.2
Of which:		
Airport construction	(18.0)	(12.1)
Other and unspecified	1.4	14.5

^a Based on Grenadian Government estimates.

[redacted]

Still, Grenada's weak physical infrastructure, which the Embassy reports compares unfavorably even with such other ministates as Antigua, St. Kitts, and St. Lucia, seriously restrains the inflow of investment needed to spur growth in these sectors. Electric power is inadequate even for current needs. Moreover, frequent blackouts interrupt other services such as telex and telephone communications, as well as the provision of water and cooking gas. Telephone communication also is characterized by severely strained capacity. There are more than 2,700 service applications on a growing waiting list and only 15 long-distance lines connected to the island. The development of tourism on the southwest coast is hampered by insufficient water distribution and sewage disposal. In addition, the number of rooms available to accommodate overnight visitors has

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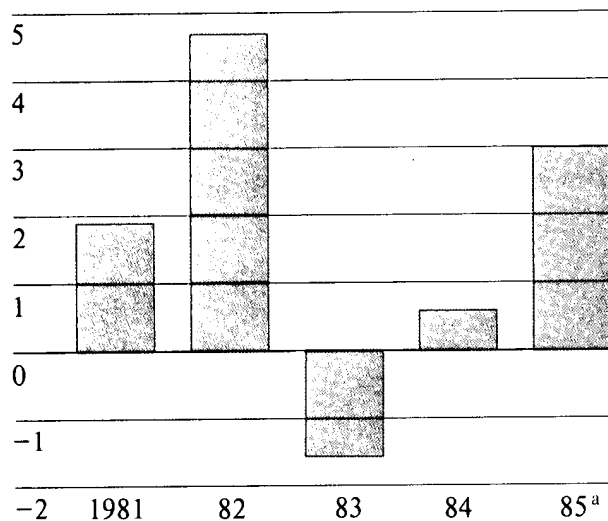
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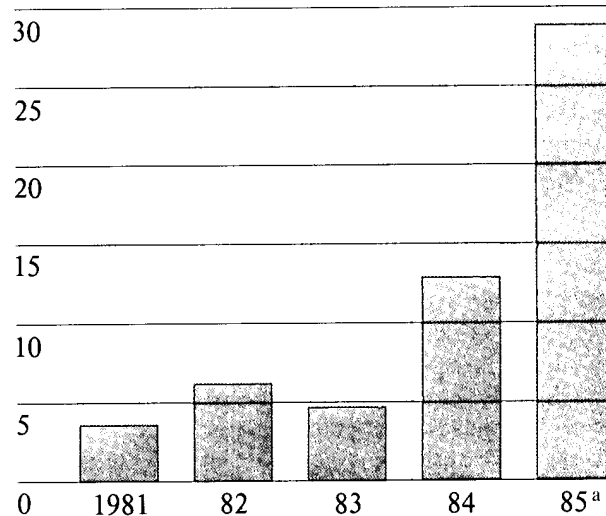
Grenada: Economic Indicators

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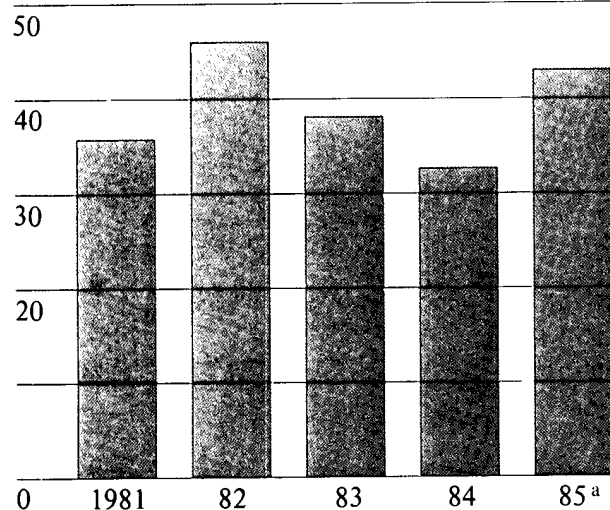
Real GDP Growth Rate



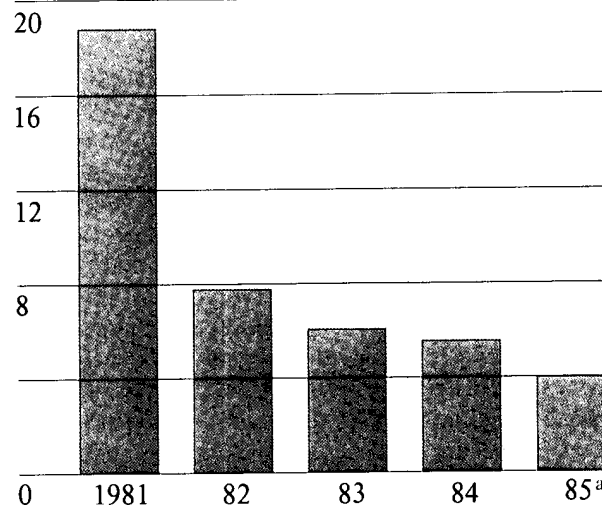
Debt Service Ratio



**Central Government Deficit
as a Share of GDP^b**



Retail Price Inflation



^a Projected.

^b Excludes external grants.

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dropped to 397. Moreover, the shortage of suitable structures limits the potential for new manufacturing operations. Years of neglect have caused serious deterioration of the island's road network. Agriculture, which employs one-third of the work force and is Grenada's largest foreign exchange earner, suffers substantial losses of perishable produce because of the poor condition of farm roads. [redacted]

Other disincentives have prevented the inflow of any significant private investment since the demise of the Bishop regime. Vivid memories of the island's instability deters investors, according to Embassy reports. Those investors willing to commit capital have experienced long bureaucratic delays before their investment proposals complete government processing. Moreover, an inadequately trained work force has partly offset the comparative advantage of relatively low-cost labor. [redacted]

Severe cash-flow problems have also plagued the Blaize administration, which resorted to heavy domestic borrowing this summer to meet payroll needs. With external debt doubling to more than \$50 million since 1980, the country's debt service burden has increased dramatically, further straining public finances. In August, the cabinet cut recurrent expenditures by 10 percent in an attempt to trim the fiscal deficit. [redacted]

Near-Term Prospects

Sizable aid inflows, particularly for the construction sector, probably will allow Grenada to continue moderate growth, but the slow inflow of foreign investment and the prolonged process of infrastructural development work against much progress on the unemployment front over the next year or two. Tourism is likely to receive a boost as Grenada Airways and a large new privately managed hotel begin operations soon. Still, the government will continue to face tight fiscal constraints. Until aid-financed infrastructural projects are in place—probably well into 1987—the island will remain heavily dependent on US and other foreign budgetary support. [redacted]

Continued high unemployment will increase the potential for popular disillusionment with the new economic and political course. If hopes for prosperity

fade, leftist and rightist elements will try to capitalize on public discontent. [redacted]

[redacted] the socialist Maurice Bishop Patriotic Movement already is working to regain social and political acceptance through youth and trade union groups. Eric Gairy, the autocratic former Prime Minister toppled by Bishop, tried to bolster his political fortunes in September by leading agricultural workers in a wage strike. Although short-lived and unsuccessful, the strike demonstrated that at least some segments of the population remain susceptible to political manipulation. [redacted]

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Latin America Briefs

Peru

Terrorist Attacks

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Peruvian terrorists have recently begun targeting the American Revolutionary Popular Alliance (APRA) party of President Garcia, according to US Embassy reporting. The 31 October bombing of APRA headquarters in Huancayo, southeast of Lima, wounded 15 and was the second major attack on Garcia's party in less than a month. On 7 October, the anniversary of the founding of the Peruvian Communist Party, an attack on APRA's Lima offices killed four and wounded several other APRA members.

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Government and APRA leaders will increase pressure on Garcia to address their security concerns, but Peruvian security forces almost certainly cannot provide adequate protection for the 1,000 APRA offices scattered throughout the country.

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Terrorist actions targeting APRA officials demonstrate that Garcia is as vulnerable to terrorism as his predecessor Fernando Belaunde, despite his leftist populist orientation. The Peruvian Government and press have attributed these attacks to the Maoist Sendero Luminoso. There is, however, an outside chance these attacks were actions of the Peruvian Communist Party in retaliation for APRA's recent attempts to win political control of the slums that long have been a stronghold of Communist influence. Nevertheless, Sendero Luminoso may have staged the attacks to avenge the deaths on 4 October of 30 of its members who were inmates at Lurichango prison.

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Jamaica

IMF Program in Jeopardy

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Kingston widely missed September targets under its \$118 million IMF program and the Fund may not grant a waiver, according to State Department and press reports. Prime Minister Seaga, fearing a violent public reaction, told the IMF that he would not institute price hikes for food and petroleum or other belt-tightening required under the program. Instead, he wants to try to limit consumer imports to strengthen finances. Jamaica's grim economic outlook and insistence by donors and creditors on a valid IMF program as a prerequisite to new funds, give Seaga little choice but to begin negotiations for a new program should the current accord collapse. The talks are likely to be protracted, but, even if he secures another accord quickly, low world demand—particularly for bauxite/alumina, Jamaica's primary export—will limit economic recovery. Regardless of the outcome of IMF talks, the weakening economy is likely to continue to diminish Seaga's popularity, significantly aid opposition leader Michael Manley's efforts to force early elections, and further alienate the influential business community.

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Haiti	Possible Petroleum Cutoff <input type="text"/>	25X1
	<p>Haiti's failure to pay some \$15 million in arrears to its petroleum suppliers may lead to curtailed shipments in coming weeks. The country's foreign exchange reserves are nearly depleted, according to US Embassy sources, because of extrabudgetary expenditures by the Duvalier regime that also are blocking a new agreement with the IMF. The US Embassy says that public discontent over economic problems is growing, especially in the northwestern city of Gonaives, where food riots occurred last year. <input type="text"/></p>	25X1
	<p>The fragile economy would quickly feel a reduction in oil shipments. Electric power shortages would disrupt communications, transportation, and production at various assembly plants—all adding to the unemployment problem. Without a workable program with the IMF, Duvalier probably will look to Washington to strengthen the economy and forestall outbreaks of violence. Haiti's security forces probably are capable of handling sporadic riots and demonstrations. <input type="text"/></p>	25X1
Uruguay	Communist Reversals in Union and University Elections <input type="text"/>	25X1
	<p>Uruguay's labor unions and university students held their first elections in September since the military coup of 1973. According to the US Embassy, the Communist Party (PCU) suffered setbacks in both contests. In the labor elections the PCU lost control of several key unions to other leftist parties. For example, it won only two of nine seats at stake in the large bank workers' association. Despite a massive propaganda campaign, the PCU's showing was even more lackluster in the university contest, where moderates bested the Communists in the politically important schools of law and economics. Nevertheless, candidates from the leftist Broad Front won an overall majority in both elections. <input type="text"/></p>	25X1
	<p>The Communist defeats reflect the Uruguayan electorate's rejection of violence and extremism, in our view. This trend became evident in the general election last year, when moderates from the country's traditional parties outpolled firebrands on both the left and the right. We view the outcome of the student and labor contests as particularly significant because most observers had predicted that, with the return of democracy, both groups would revert to their pre-1973 status as Communist bastions. Nonetheless, the PCU remains a disciplined and well-organized force which—especially in the labor movement—exerts a political influence far in excess of its size. <input type="text"/></p>	25X1
Trinidad and Tobago	Streamlining Sugar Production <input type="text"/>	25X1
	<p>The Trinidadian Government's recent plan to trim operations of its sugar producer, CARONI, reflects the country's belated efforts to ease the growing fiscal burden of extensive state ownership. The government controls about 80 percent of the economy through 64 jointly or wholly owned companies, only seven of which were profitable in 1984. Fearing substantial job losses, the government</p>	

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has long been reluctant to streamline its commercial holdings. A sharp decline in oil revenues, however, has made it increasingly difficult for the government to subsidize inefficient corporations. CARONI—the largest employer of the state enterprises—has received generous government support since 1976, and more than \$120 million in 1984 alone. According to press reports, the reorganization plan includes the elimination of 4,500 jobs over three years. The CARONI plan probably will enable the opposition National Alliance for Reconstruction, which already enjoys a substantial lead over the ruling People's National Movement in opinion polls, to capitalize further on growing labor concerns that sizable layoffs may be in the offing in other public enterprises.

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